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SUBJECT: ARGENTINA: AMERICAN CHAMBER DESCRIBES
INVESTMENT CHALLENGES, OPPORTUNITIES TO CODEL MEEKS

Ref: BUENOS AIRES 1680

Summary

¶1. (SBU) CODEL Meeks received a first-hand understanding of the commercial opportunities and challenges faced by U.S. companies operating in Argentina during a roundtable discussion with American Chamber of Commerce in Argentina (AmCham) member companies on December 17, 2008. Discussion focused on the pressures on profitability of U.S. firms in Argentina, and how GoA actions are exerting pressure on trade and investment. Financial services and energy companies complained the loudest. Technology and consumer goods companies reported on how they have found opportunities to work around or avoid obstacles created by the Argentine government. Congressmen Meeks, Hinojosa, and Ryan encouraged AmCham members to help the new U.S. administration to find opportunities to improve the bilateral relationship with Argentina.

Congressman Hinojosa made a strong pitch for U.S. businesses to support financially the Embassy's Youth Ambassadors and Teacher Ambassadors Programs. End Summary.

AmCham hosts roundtable

¶2. (SBU) After introductions by the CODEL and participating companies, the AmCham CEO summarized the current trends in the business climate in Argentina. For the last few years, he said, U.S. firms were profitable and growing rapidly thanks to a rapidly expanding economy and their understanding of how to deal with the boom-and-bust cycles of the Argentine economy. However, as economic growth slows, institutional values such as protection for private property and ensuring a stable regulatory environment and free markets have become more important considerations for the foreign companies operating in Argentina. Participating companies were MetLife, Duke Energy, Prudential, CH2M Hill, Mary Kay Cosmetics, Apache Energy, and Microsoft. The Ambassador, Economic Counselor, Commercial Counselor (notetaker), and CODEL Control officer also participated.

Expropriation through legislation

¶3. (SBU) MetLife's corporate headquarters is located in Congressman Meek's district. The GoA's recent move to nationalize all Argentine private pension plans greatly affects MetLife's operations in Argentina (reftel). MetLife said that they would comply with the recently enacted law that nationalized private pension plans, but

are concerned about its effect on the company, their clients, and their employees, and emphasized their interest in receiving a fair price for the value of their expropriated investment. Representative Meeks, familiar with this case, reported to MetLife's representative that he mentioned to the President's Chief of Cabinet Sergio Massa his interest in seeing MetLife treated fairly, and his hope that the resolution of the exit of MetLife from their pension business in Argentina would not sour current or future U.S. investment in Argentina (septel). Prudential echoed frustrations that the business climate is worsening, and that action taken

against private pension funds has damaged any residual trust that the financial sector had in the public sector.

Energy sector suffers

¶4. (SBU) Both Duke Energy and Apache Energy voiced frustration over government intervention and over-regulation that discourages private investment in the energy sector from exploration to distribution. Seventy percent of planned investments in the energy sector are currently supported by the State, which results in high inefficiency and which reflects the fact that given low state imposed tariffs which discourage investment. Both companies stressed that Argentina lacks the long-term stability that private investors need. Strong labor unions and a weak judiciary add to the highly unpredictable operating environment.

High Tech Remains Strong

¶5. (SBU) Microsoft reported 25 percent growth in the market, and a positive relationship with the GoA due to employment generation and corporate social responsibility activities. The growth of the local software industry will depend on successful efforts to reduce the rate of piracy, currently estimated at 79 percent. More IT professionals are also needed to continue growth in the local software industry.

Crisis Creates Opportunity

¶6. (SBU) For Mary Kay Cosmetics, the economic crisis of 2002 created a large growth opportunity for direct sales. Mary Kay Argentina quadrupled its sales force over the past seven years, and has avoided the government's price control regime that targets mostly lower-end consumer goods and commodities. CH2M Hill has also taken advantage of local low-wage, highly-skilled employees by hiring more than 400 engineers that provide private-sector clients in Argentina, Latin America, and the world with engineering services for major projects. CH2M Hill currently avoids government interference by not bidding on public

tenders. However, they note that more complicated times lie ahead for CH2M Hill as private sector clients scale back expansion, and the government begins to initiate the vast majority of new investments in infrastructure.

Business as Ambassadors urged to Support Embassy Exchange Programs

¶7. (SBU) The Congressmen concluded by urging the U.S. business community in Argentina to work with the U.S. Government and take advantage of the opportunity to improve bilateral relations that will come with the change of administrations in Washington. Congressman Meeks stressed that US businesses serve as informal Ambassadors for the U.S. and that their role is even more important these days. That opportunity to improve relations promises to go far beyond solely commercial relationships, the Congressmen stated, with the potential for Argentina to be a stronger partner of the USG

in dealing with the serious issues which confront the region.

18. (U) Representative Hinojosa made a lengthy presentation about the importance of education and exchanges and urged the Chamber and its members to support them. He shared how impressed he was to learn about the Embassy's Youth Ambassador and Teacher Ambassador Programs. He urged the Chamber to consider a donation of \$1,000 by each of its member companies to the Youth Ambassador Program -- an investment in bilateral relations which will pay off handsomely.

19. (U) The CODEL did not have the opportunity to clear this report.

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